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Page 1

THE CITY'S ROLE IN ECONOMIC DEVELOPMENT

What are the steps to be taken in a community economic analysis? What is the role of the city government in organizing for economic development? What are the possibilities of governmental subsidies and other development tools?

As used in this report, economic development refers to the addition to the community of new wealth. It includes but is not limited to the location of new, or the expansion of existing manufacturing or processing operations; warehousing and distribution facilities; commercial, administrative, or tourist activities; and major residential developments.

It has been well established through the acceptance of planning procedures which help to guide the growth of urban areas, that cities as official bodies have not only the legal right, but the moral obligation as well, to map out programs to guide the future development of their areas. These long-range general plans express the desires of the citizens in terms of community goals for the kinds of places they want their cities to be. Usually people want their cities to be good places to live, which provide places for gainful employment; places for leisure-time activities; protection to health, welfare, and property; cultural and educational facilities; provisions for ease of circulation; good places to shop; and a pleasant environment.

From this description of the typical general goals for a city's general plan, it can be seen that the city must be a dynamic organism seeking constantly to find new ways of achieving the objectives of the citizenry. In order to remain dynamic and strong, new wealth is required. This wealth will not only pay taxes with which the local governmental jurisdictions can render services but will also provide jobs and purchasing power tending to keep the general standard of living at a high level. This report explores the role of cities as official bodies in the development of the economy of their areas.

Broadly, four steps occur in the development of a functioning program of economic development: community analysis (this will bring out strengths and weaknesses of the area); organizing for development (this will establish community goals and will enlist citizen support); house cleaning (an attempt is made here to overcome the weaknesses made apparent by the analysis step); and promotion (this is the step where new businesses are invited to town).

This report will confine itself mainly to the first three steps, leaving the promotional phases to existing local organizations equipped to handle them (the chamber of commerce, local realtors, railroads, utilities, and others). This review will also discuss some of the tools which are or may be available for use in a business promotion program such as subsidies and redevelopment.

Local government's main job is the provision of services to its citizens. With this firmly in mind, the approach of the city to economic development is to protect the future of the population by seeing to it that a dynamic development program exists in the area. The goal is to insure continuance of an adequate supply of places to work, play, and shop. If the local chamber of commerce and others are already carrying on a successful development program, then the city may have a role only of providing information needed for the existing program and the services it provides all citizens. On the other hand, if there are gaps in the economic development program which can effectively be filled by efforts of the city, then the role of the local government should be directed into those channels.

The Community Economic Analysis¹

Before a definite program for further economic development of the community area is started, it is essential to know the direction such a program should take. In times of rising costs and increasing demands for municipal services, the part that the city, acting as an official body, will play in such a development effort must be analyzed carefully so as to reap all of the benefits possible from the dollars expended.

It is conservatively estimated that approximately 6,000 organizations in the United States engage in the promotion of new business for their service areas. These organizations range from local chambers of commerce and cities to railroads, public utilities, realtors, financial institutions, and state and regional agencies, to name just a few. With such competition among areas for the attraction of new industry, those communities which have a number of natural attractions and are able to provide the most information about themselves will stand the greatest chance of success in their economic development programs.

It is important to engage in some self-analysis about the city and its present developmental efforts before striking out to formulate a new program. The chief administrator might well ask questions such as these: What is being done presently to make the city attractive to the location of new business? Which local organizations are presently engaged in developmental efforts? What part is the city presently playing in the total picture? Where are the weaknesses and duplications of effort in the present program? Is there an over-all coordination of efforts in the present program? Could the existing groups be adapted to function effectively in a newly oriented and coordinated economic development program? What do leaders of business and industry expect of the city in economic development efforts?

The administrator who takes a critical look at his community by the self-analysis method can see quickly what a sizeable task a comprehensive community economic analysis really is, and he probably will conclude that professional review is in order.

The Professional Analysis. A professional economic analysis will usually provide the answers to questions of what kinds of new economic development are best suited for the area and how strong the community's position is for getting that kind of development. *Professional analysis* is stressed rather than a "do-it-yourself" project for a number of reasons. First, a professional analysis usually is done by a firm operating in many areas, and the thinking of the analysts is not confined to the area under survey. This diverse experience helps to bring in an outside objectivity which can evaluate factors affecting the community's growth in a strictly impartial and unprejudiced way.

Another good reason for having a professional conduct the community analysis is that of prestige. When these surveys are completed, they usually contain statements which can be used in promotional literature about the community. If statements of a city's strong points are made by a respected firm of professional economic consultants, they mean more to a businessman in search of a new location for his business than if they had come from a local group. In addition, if the consultant is chosen carefully, the city fathers can be sure that for each dollar expended for services, they are getting value received. If the city has a planning staff, the economic consultant will work very closely with that staff. Because of the far-reaching effects of the analysis and the action program which the consultant will recommend, it is important that the economic development program be integrated with the physical plan for the city.

A very important consideration which must not be overlooked in any phase of the economic development program is that the city, no matter how small, is affected by what goes on outside of its boundaries. Any analysis or action program of economic development, if it is to be effective, must relate the city's growth and progress to that of the area generally. If the city is a part of a major metropolitan area, the activities of the surrounding cities are so vital and interrelated as to have effects on the very future of the city itself.

¹For a comprehensive analysis of the steps involved in the preparation of a community economic development study, see Urban Land Institute, *Preparing Your City for the Future - How to Make an Economic Study of Your Community* (Washington, D. C.: The Institute, 1956). Technical Bulletin No. 29. 27 pp.

The economic analysis should be designed to show the strong and weak areas of a community with respect to future economic growth possibilities. Basically the analysis will reveal trends of growth and through interpretation will relate the trends with present deficiencies and make recommendations on how to correct the weaknesses. Then it will outline a development plan and project the area's growth based on the assumptions made by the analysis. The purposes of the survey, and the uses to which it can be put are manifold. It will present a 10-20-30 year forecast of the area as a guide for: (1) apportionments of land uses; (2) evaluation of zoning regulations and protection of land uses; (3) renewal of obsolescent areas; (4) determining areas of possible annexation and planning for their municipal services; and (5) developing a long-term capital improvement program.

The study will provide city officials with useful information about the community's economic reasons for existence. It will have a wealth of material for a promotional program of economic development for the area and will be a source of economic information for general public use.

With this general statement of what the economic study of the community should do, it is appropriate to consider the content of such an analysis.

1. Background. The introduction, or stage setting, to the economic analysis is best done through a brief economic history. This should be an historical statement which emphasizes the economic aspects of the community's growth (the establishment of the first factory; an influx of immigrants providing new and diversified skills; the coming of the railroads; and so on).

2. Population. If any factor about a community can be singled out as most important, then that factor is its people. The section of the economic study relating to population will provide useful statistical information about the area's growth trends as well as other characteristics of the population. U.S. Census figures, as well as recent local estimates of population can be consulted to build up data about the population.

It is extremely important when using population statistics or any growth indices that great care be taken in extrapolating growth curves or in making projections of any sort. A multitude of factors are at work on these data: the general economic health of the nation or of the region; the lending policies of local home financing institutions; home financing policies of the FHA or VA; the discount rate as set by the Federal Reserve Board; the status of the reserve supply of a natural resource upon which the community may depend for existence; the amount of vacant, buildable land in the area; and other interrelated factors.

Because a city's growth has been fast or slow in the past is no reason to project that growth only on a straight line continuation of the trend. While no one can be completely accurate, population projections made with care and consideration of the interrelationship of many factors, can be extremely useful to the community's leaders in scheduling the construction of public works, schools, police and fire protection, recreational facilities, and many other long-term projects.

From the aspect of economic development and the encouragement of the location of new business within the study area, probably the most significance attached to population is that it represents both a buying market and the labor force. When delineating the area's manpower resources some of the data which should be compiled are: the total labor force (employed and employable); the proportion of employed to unemployed; employment by major industry groups (manufacturing, agriculture, mining, utilities, transportation, retailing, wholesaling, government, and so on); as well as other significant factors.

3. The Economic Base. The economic base concept divides all employment within an area into the categories of "basic" and "local service." Those engaged in basic employment produce goods and services which are "exported" from the study area, and the income produced by their activities helps the area pay for the "imports" which the community requires. Both basic and local service employment are necessary to the good health of the community. Where the basic employment brings in the outside dollars, it is the local service activity which redistributes the community's assets.

Examples of basic and service activities may be used to distinguish more clearly between the two. A firm which manufactures desks and chairs, or a mail order firm, or the home office of an insurance company are all basic employers to a community because they bring into the area a

supply of outside money. A gasoline service station, or a jewelry store, or the supermarket are all examples of local service employers.

The differentiation between basic and local service business is not always clear-cut. In a community with substantial tourist trade, for example, clearly the hotels and motels are basic employers. The barbers, grocers, service stations, and other traditionally service establishments in these communities do a substantial part of their business with people from out of the region and thus are partly basic employers and partly local service business. To classify each business through a careful weighing of all factors would be a monumental task, if not impossible. Fortunately, however, the economic base concept requires no such extreme accuracy to be valid. In difficult cases of evaluation, informed local judgment can be applied to the employment figures and discussions can be carried on with some of the businessmen involved, so that employment may be broken down to the basic and service categories.

4. The Employment Ratio. A very helpful tool in projecting future growth is the area's basic and service employment and total population expressed in terms of a ratio (e.g., 1:1:6, meaning that for each basic worker there is one service employee and six residents). The community's ratio expresses in numerical form the growth pattern which has evolved over the years. The ratio can change, but its change is very slow, and thus it can be useful in helping the city fathers to make planning decisions. Such decisions might relate to the amount and type of lands to be reserved for future development through zoning, patterns of future growth and land uses, and areas which could best be served by future — possibly scheduled — annexation.

5. Employment. Once the basic information about the population and labor force has been compiled, the next step usually is to analyze critically the various categories of employment. The method is to take each major employment group, giving most attention to the factors affecting the groups which have the most effect upon the area's basic employment. The investigation which will be conducted during this part of the economic study will be laying the foundations for the community's developmental program which will follow the fact-finding stage. The employment categories will be analyzed here to determine which ones have the most potential for building up within the study area.

6. Manufacturing. Manufacturing employment may be subdivided into classes such as: food products, chemicals, petroleum, primary and fabricated metals, nonelectrical and electrical machinery, transportation equipment, and other manufacturing. Some of the questions which the investigation should answer might be: What industries are represented in the area? Which of those not represented might be prospects for solicitation? Which would offer the most to the economy of the community by their location in the area (broader employment opportunities, balancing the economic base, utilization of natural resources offered by the area)?

7. Wholesaling. When considering wholesale trade, the delineation of trade areas served by wholesalers located in the community is important. For example, many firms have wholesale distribution points situated in centralized locations which serve an entire region. An illustration of this would be an automotive parts depot which serves dealers throughout a sales territory made up of several states. This type of distributive activity definitely represents basic employment.

On the other hand, there is a fairly constant pattern followed by distributors of certain types of products (e.g., candy, cigarettes, beer, wine, soft drinks) wherein they serve only one city, or county, or some other strictly local service area. This type of wholesaler is a representative local service employer.

8. Retailing. Retail trade is for most communities not a basic employment source. For those areas which may have a natural beauty or other factors conducive to the development of a tourist trade, retailing may be the mainstay of the community's economy. In such areas, it is important to look at the facilities which are available to accommodate travelers. Sometimes, when viewed critically, it can be seen where tourists are going on to the next town to obtain lodging, food, and entertainment. If this is the case, there may be opportunities waiting for people to fill these gaps in the economy of the study area.

Besides the possibilities for developing retail trade as a basic employer to serve tourists, it

is many times a most lucrative source of property and nonproperty tax revenue to a city. This situation exists especially in those communities where the downtown area is well developed and are located in states authorizing a local sales tax.

9. Other Classes. Occupational groups are classified also under other categories than the three mentioned here. The other classifications

Agriculture, forestry, and fishing

Mining

Construction

Transportation, communication, and utilities

Finance, insurance, and real estate

Service

Government (usually excluding those governmental workers engaged in work also performed by private industry; those workers are included under their proper industry classification)

Because these categories are not usually basic employers, the economic study may not devote much space to them.

Data outlining the breakdown of employment by the classes mentioned here for various labor market areas of many states may be obtained through the state's department of employment or similar agency compiling such information.

Why All the Data? If the economic analysis of the community were to contain only the sketchiest of information about the community under each of the categories enumerated above, it would be a rather comprehensive study. The professional analysis will of course be much more complete than this brief description would indicate, and this may give rise to the question of why all of this information is needed in the self-analysis stage of developing a community program for economic growth.

Referring back to the community goals discussed in the introduction to this report and to the importance of the integration of the economic development plan with the physical plan for the city, it can be seen that a thorough analysis of the factors outlined here and to follow, will shed light on the evolution of existing patterns of population growth and occupation and community facilities. This review will reveal the general direction which a coordinated program for the further economic development of the area should take, and subsequent steps in the planning and execution of this program (which will be discussed later) can take full advantage of this kind of information.

The Urban Complex: The Importance of the Fringe. Few if any cities in the United States today have no urban fringes. This gives rise to a number of significant reasons for considering the broader urbanized picture when completing an economic study of the community. The "flight from the city" of the modern home buyer is matched also by the city's business concerns. With the trend for continuous flow production processes, many well established firms, formerly operating in multi-story factory buildings in the central city, seek outlying locations where they can construct spacious facilities and leave room for future expansion.

The frictions which build up many times between the central city and its own satellite communities because of the competition for taxable wealth, has upon occasion reached sizable proportions and so accentuated local rivalries as to frighten away prospective industries and cause the entire area to endure the consequent loss of potential payrolls and assessable wealth.

This phase of the economic study can later be very helpful in making up the promotional material for the development program. It should not, however, de-emphasize the weaknesses of the community. Most of the factors considered by this part of the study are controllable by the people in the area, and because of this weaknesses should not only be pointed out but possible suggestions for cures ought to be brought forth.

The chief administrator or other city official responsible for aiding in the compilation of the community economic study should be certain that the report considers, in addition to the points heretofore mentioned, the ones to follow. It is only after a complete economic picture of the community has been painted, that the broader goals can be visualized and plans laid for a realistic program promoting further economic growth.

1. Transportation. Consider all aspects of available facilities, types of service available, and practices encouraging or discouraging the location of new business.

2. Utilities. Are all services available? Are they expandable? Are rates competitive? What might future demands be in light of growth forecasts of existing business and possible new firms?

3. Living Conditions. Are homes in good supply, or short? What is the quality of existing and proposed homes? Is renewal underway or needed?

Are the schools adequate? Do they anticipate overcrowding in the near future? Are employers and school officials cooperating in the development of curricula to the community's best growth advantage? If a new school building program is planned, will it involve a large bond issue and/or a substantial tax increase?

What are the present recreational facilities? Are they adequate? Will a major recreation development program be needed in the future? If so, what will it mean in terms of new taxes?

4. Other Community Factors. Critically analyze police and fire protection, planning and zoning protection, the status of firm guidelines for the healthy growth of the community area, and the city's regulatory codes and ordinances (e.g., building, housing, plumbing, heating and ventilating, fire and electrical, subdivision control, and so on). Is the central business district attractive and well located? Does it offer adequate shopper parking, transit, good circulation, and wide selection of merchandise? These and other public services can be evaluated in the economic study. For each type of service performed or franchised by the local government, there is an opportunity here to analyze its adequacy, efficiency, and continuing need.

Taxes and Public Finance. Almost every type of public activity involves the expenditure of tax funds and the execution of public policy as it regards debt and spending. On many occasions when a business is considering a new plant development, especially in a complex area of many cities, all the costs of doing business at the available sites are substantially equal — except taxes. Because of the tremendous impact which public financial matters have upon business location, it is extremely important to examine the practices current in the study area as a part of the economic analysis.

Typical among the questions asked about an area's public finances is: "What is the tax rate?" A note of great caution should be sounded here regarding tax rate comparisons — or for that matter, any comparisons. When evaluating anything, do so only between or among equal elements. A quick glance at the statistical presentations in the *Municipal Year Book* of the International City Managers' Association will reveal the vast differences among cities as regards services, salaries, facilities for service, areas served, and a multitude of other factors.

When considering taxes, the significant factor is value received for dollars out of pocket. The other determinant of dollars out of pocket for property taxes, besides the tax rate, is the assessed valuation of property. What is its size as a percentage of market value? Are assessment practices within the study area discriminatory to certain classes of building or to new construction generally? Is there a narrow margin between debt limit and existing debt? Or, have the local governing bodies been very conservative and not amassed any public debt at all? Is there a long-term plan for the development of needed public works? Is the financing for future needed public works scheduled so as to keep taxes as level as possible and not cause any substantial highs and lows?

This phase of the economic analysis has two important elements: (1) it will reveal areas of possible inequities, inconsistencies, or burdens in the debt, taxation, and fee structure of local government; and (2) it will spotlight those types of development which do the most to increase the assessed wealth of the area. Examples of what can appear are shown in the Tables 1 and 2.

It must be pointed out that in California, where both of these examples were gleaned, there is a personal property ad valorem tax as well as that on land and buildings. In those states where personal property (inventories, machinery, etc.) is not assessed, where fair market value is approximately the same, and where assessments are arrived at in about the same manner as in California, the per acre figures may be substantially lower than those shown by the examples above. In other states where assessment practices are vastly different, the variations may be even greater.

Table 1

Per-acre Assessed Value by Type of Development, 1956
San Francisco, California

Area of City	Assessed Value per Net Acre (land and improvements)
Financial District (office buildings)	\$2,160,000
South of Market (light industrial and warehouse area) . .	112,000
Mission District (multifamily residential)	48,200
Sunset District (single-family residential)	40,600
Nob Hill — Pacific Heights (luxury apartments)	250,000
Produce market section	180,400
City-wide average	42,200

Source: Report to the San Francisco Planning Commission by Lawrence Lackey *et al.*, June, 1956.

Table 2

Per-acre Assessed Value by Type of Development, 1957
Richmond, California

Class of Property	Average Assessed Value per Acre
Industrial	
Heavy	\$ 75,000
Medium	63,000
Chemical	40,000
Petrochemical	100,000
Light	95,000
Commercial (warehousing and distribution)	
Consumers' goods	40,000
Producers' goods	120,000
Business — retail establishments (downtown)	394,000
Residential	28,000

Source: *An Evaluation of Further Economic Growth Possibilities of Richmond, California* (Palo Alto: Stanford Research Institute, 1957), p. 72.

While investigating the question of public finance, it is important also to look closely at the schedules of fees charged for business licenses, franchises and special permits. While these usually are not real burdens or threats to further economic development, they sometimes do create inequities which through adjustment will not only better the area's "business climate" but also bring increased revenue to the public body levying them.

Land. The economic analysis will show the way toward greater economic development for the study area. Even if all deficiencies are corrected, it will do no good so far as further development is concerned unless land is available on which new businesses may locate. An inventory of available properties, both developed and undeveloped, should be made. Asking prices should be known, and

the utility services immediately available to the properties should be indicated, along with assessed valuations, terrain, bearing capacities (if available), ownership, and other characteristics of the available sites.

Organizing for Economic Development

After the completion of the economic analysis of the community and the concurrent self-analysis of the city area by the chief administrator, it will be a propitious time to consider the sort of organizational structure which will best be able to handle the execution of a coordinated program for economic growth.

As discussed earlier, the local government has responsibilities in areas of planning for its future growth, and local government's primary responsibility is to meet the service demands of its constituency. All other demands and responsibilities must be integrated with and compatible with the service responsibilities. This being the case, it would appear that the city government can serve in many ways toward the guidance of the area's economic growth.

From the standpoint of the professional city administrator, it is desirable to use existing institutions as much as possible in the effectuation of the program for economic growth. The local chamber of commerce will usually be well equipped to disseminate information to the proper channels promoting the advantages of the community. The local realtors will usually be equipped to handle the sale of property should a prospective developer appear. Apparently then it is not necessary to be too concerned about the promotional aspects of our development program. But what about the "house cleaning" phase?

This step in developing a comprehensive plan for economic growth is one of the most important of all for it is here that the policies are established to guide the city toward new wealth. It is here also that a concerted effort should be made to correct as far as possible the weaknesses which manifested themselves through the economic analysis.

Look for a moment at existing city bodies and commissions which may already be active in the field of economic development, and then determine what parts they are presently playing and what additional use can be made of them.

In most local governments a planning commission is vested with broad responsibilities of guiding the community's growth. Where community "general plans" have been made, some tentative decisions also have been made about future population, the scheduling of major public works, and the development of neighborhoods, schools, shopping areas, streets, highways, and similar developments which outline major land uses within the community planning area. Because the planning commission has some familiarity with the community and its growth problems, it is the logical body to call upon for aid in formulating the program which can be submitted to the city council for policy determination and action.

In many cities, the utilities are operated by the local government. Many of these utilities have boards of directors which have become experienced with the demands made by large users. These boards, where they exist, can be of invaluable help in advising the city council as to possible rates of growth of service and similar matters. They also can be helpful in advising when new and costly facilities may be required.

Community recreation commissions or boards also can be of help in advising of proposed developments. The school board too will be able to contribute to the planning of a realistic community economic development program. They can keep the council posted on estimates of enrollment growth and areas of the community which can be expected to require new schools.

Don't forget the board of directors of the local chamber of commerce. This body is usually composed of the leaders of the business community, and while they will be getting in later on the development of the promotional phases of the program, they can be of aid to the council during this, the "house cleaning" phase of the program. They can advise of needs which they, as businessmen, observe in the make-up of the community. They can advise of what lines of manufacturing and processing are growing and of the community facilities these types of firms require. They may be of help in enlisting citizen support for the program and in working with other local organizations.

The Economic Development Commission. One type of organization which is being given a trial by a number of west coast cities is the economic development commission (or industrial development commission). Under this organizational plan the city council establishes a city advisory board by ordinance which usually has from nine to 15 members. These people are ordinarily community leaders — people who have a definite stake in the future of the area. Membership on the commission ordinarily is not restricted to residents of the city in which the commission is serving but is open to the best talent available.

Some of the desirable aspects of such an additional official body are that here in one advisory group, the city council is able to pool the community's top business and labor leaders working together to help guide the economic growth of the community. A special commission such as this, because of the composition of its membership, lends great prestige to the community's economic development efforts. This is especially so if many of the members are well known outside of the immediate area. Also an economic development commission can be of assistance to other city boards and commissions when they are considering matters relative to the area's economic growth.

Some of the communities which have such commissions have found, however, that there are some drawbacks. The mere establishment of an additional city commission assigned to the matter of "encouraging the economic growth of the area" does no good unless the commission members are thoroughly imbued with the spirit of the development program. It has been found too that just because the individual members are successful in their own fields, they do not necessarily have experience in working together to reach joint decisions beneficial to the greater good of the community.

It is well then for the city council to consider long and carefully before establishing a special body whose duties will be the advancement of the economic development of the city. There may be definite advantages for such a commission, but there may be as many and as powerful disadvantages.

Staff. In most cities there is a real need for some sort of liaison between the administration and outside contacts relating to economic development projects. This liaison can be handled very effectively by staff assistance responsible directly to the chief administrator.

It is of relatively little importance whether this assistance is rendered by a full-time person experienced in these matters or as an additional assignment for the manager and his assistant. There are at least two definite advantages to handling such contacts in this manner. One is that whenever a developer contacts the city for information as to how he goes about fitting in his proposed business venture with the rest of the city's development, he is after answers as rapidly as they can be obtained. The manager — or staff man working directly for the manager — through his intimate knowledge of the functioning of the governmental administration, can guide him to the answers speedily and with a minimum of "wheel spinning." Such service is thoroughly appreciated by the prospective businessman and many times is just the extra touch needed to land the new business in the city.

The other advantage to centralized liaison within the city administration is that by having all outside contacts come through the manager's office, he is able to keep close tabs on the kinds of inquiries being made and the kinds of assistance being given to or being requested by developers.

For example, it was found in one city that predominantly the sorts of businesses interested in finding quarters were small firms being squeezed out of nearby areas of very dense population where land values, rents, and other factors of crowding were becoming prohibitive in cost. The city's staff was aware of this trend and went out to encourage investors to consider the development of planned industrial areas to accommodate these small firms. At present, the city is working with three interested parties, showing them how to get the most rentable space from their lands, how to keep costs of construction low, and how to build in the amenities of good industrial living through low maintenance landscaping.

Previous to the time when the manager's office had developed good liaison among the city, the local chamber of commerce, the local realtors, and some of the city's larger land owners, the contacts were scattered among the city departments (public works, planning, tax assessing, etc.), and no trends could be observed. Because of this early lack of coordination, many firms became

discouraged with the scarcity of sites on which their plants could be located and went to other communities.

Other Duties. In addition to the handling of contacts from new businesses, the city staff assigned to economic development matters also can be useful in helping to formulate the program which will help to make the community more attractive to new developers. Through the close relationship this staff person will develop with local industry, he can lend assistance in suggesting to the chief administrator the sorts of activities the city council might well consider engaging in: disposal of industrial wastes; the continuance of adequate supplies of water and power; and a capital improvement program to keep high the level of city services while maintaining local taxes competitive.

The compilation of community data and the maintenance of this information in current status can be expedited by the staff person assigned to economic development matters. Because of his unique position in the city administration, this assistant (or the chief administrator if he is handling these chores as an additional assignment) will be able to work very closely with the staff of the local chamber of commerce, the local realtors, and people representing financial institutions, utilities, and transportation companies. This relationship can be advanced to the point of developing an effective working team where each participant will be able to contribute his special knowledge toward the successful location of new business in the community.

Development Tools

Subsidy Programs—Some Considerations. Probably the most controversial subject surrounding the over-all topic of economic development is that of subsidy. Today most cities state publicly that they are unalterably opposed to subsidy, but these same cities go right ahead, in order to accommodate a new industry, and install many public works (streets, drainage improvements, sewers). Some even buy and sell land while claiming all the while that they are not subsidizing the businesses they are attempting to attract.

It is true that there is no general agreement as to what constitutes a subsidy. Some feel that it is solely the offering of tax concessions. Most would include the cut-rate land sale activities carried on by some cities. Others would include low-interest state sponsored financing plans. Still others would include the installation of streets and drainage improvements. Some would add to the list sewers, street lights, and similar items.

It is the purpose of this report neither to encourage nor to discourage subsidy programs as tools for effectuating economic development. The attempt is made here only to issue a warning to city officials who are about to spend public money for the development of facilities to serve a specific development proposed for the community. Be sure to allocate to the project all of the costs to be incurred. Also, be certain that the city has the cash on hand with which to pay for these facilities.

The matter of solvency is stressed because too many times this comment is made by a city council: "Why with the taxes we will receive from this development, the facilities we propose will be paid off in less than five years." This may be true, and if taxes were to start coming in immediately the program might be more readily justified. The simple fact remains however, that developments are usually not started until after tax lien dates, and the city will get no property taxes from the building program the first year. If everything goes according to schedule, the city may receive a token payment of property taxes during the construction of the project, but ordinarily even the first year's taxes are so small as to make any large expenditure of public funds for the project very difficult to justify in the public's eyes.

If the amount of money spent by the city out of current funds for the project is so large as to require either a cut-back in city services or an increase in the tax rate, then the council must be prepared for a barrage of rather embarrassing questions directed at them from existing industry and from other citizen pressure groups (such as those seeking additional parks, general city-wide street improvements, etc.)

It is extremely important for the city council to consider the possible effects to all citizens of

subsidizing new business. Will such a program place existing industries at any competitive disadvantage? (Remember, these are the people who will be paying the subsidy bill.) Could the public funds be better used to build up the city's sewage disposal facilities, parks, streets, or other facilities beneficial to the entire citizenry, with the possible side effect of attracting a more stable industry not dependent upon subsidy and more acutely aware of its "community responsibilities"? If the council embarks upon a subsidy program, will it be available equally to existing industry should it want to expand? Would a subsidy program meet with wide citizen acceptance and broad citizen benefit?

The city council must consider all possible ramifications of the question of direct city aid to a new business. If a decision is made to contribute financial support to a new project then a realistic, businesslike approach must be taken. Just as no banker would lend money without collateral, and just as he would look at the direct monetary benefits accruing to his lending institution, so should the city council approach the question of direct aid to the attraction of new business.

To illustrate, assume that a large and nationally famous firm comes to the city and states that they will locate there if certain things are done. These things might be the installation of access streets, the extension of large capacity sewers, the building of storm drainage improvements, the erection of electroliners, and similar activities. The costs for these facilities could well run into the hundreds of thousands of dollars. If the community's assessment base is relatively small, to raise such a sum by ad valorem taxes would require a substantial tax rate (e.g.: assessed wealth of \$100,000,000 produces \$10,000 for each cent of tax rate per \$100 of assessed valuation).

The city can draw up a balance sheet by which to evaluate the proposed program. On one side list the benefits accruing to the company. On the other side, enumerate all of the things which the new development will bring to the city, and when they will occur. This listing might be similar to Table 3.

From the simplified illustration shown in Table 3, it can be seen that while the city would be required to spend \$91,000 in a single year to attract the industry, the company would return to the city treasury only about \$60,000 over a 10-year period. If consideration were given only to dollars expended and dollars returned, the subsidy required by this firm would be undesirable.

Usually, however, cities considering the adoption of a subsidy program consider many other factors: the distressed condition of the local economy; the level of employment of the area; the lack of diversification of the area's economy; the possibilities of attraction of satellite firms; the addition of purchasing power for the area's general well-being; and a multitude of other difficult-to-measure factors.

Another drawback to the subsidizing of new business should be considered. The city engaging in a subsidy program must spend immediately funds which are planned to be returned through future taxes. Even blue-chip companies find that they are not always able to continue operations of every factory they establish, and sometimes they have to close a facility. If economic set-backs occur, the businesses of the nation drop production, cut down employment, abandon plans for expansions, lower inventories, and take a number of other corrective steps which they hope will enable them to keep their plant open. When this happens, the local governments where these facilities are located feel the pinch. If one of these governments had a substantial investment in a subsidy, there would be no way for recovery other than to mark time until the business were to regain its health.

In one case a city subsidized a firm for about \$150,000 over a period of 18 months. A national economic turn-down came on, and for economic reasons the subsidized firm was required to close its doors a scant three months after it began the operations of the new division in the community. The plant sits empty, available for lease to any taker, and the city sits by waiting for the employment and taxes which never materialized.

Redevelopment Possibilities. In a large number of cities throughout the nation industrial and commercial areas are blighted by the inroads of nonconforming uses, poor layout, insufficient parking and loading space, obsolescence, and similar causes of decreasing property values.

Urban renewal as a possible cure for these ills may offer a ray of hope for a city seeking to upgrade itself. The federal renewal and redevelopment laws are residually oriented (a project

Table 3
Hypothetical Balance Sheet for City Subsidy Program

Benefits Accruing to Company			Benefits Accruing to City		
Year	Item	Value	Year	Item	Value
1	Loss on sale of city-owned land (15A @ \$2,000/A)	\$30,000	1	15 acres land, ad valorem taxes	\$600/yr.
1	500' industrial street	10,000	1	100,000 sq. ft. mfg. bldg. (const. cost: \$500,000; ass'd val. \$125,000)	Taxes: \$1,250/yr. after completion
1	1,000' curbs and gutters	2,000	1	250 mfr'g employees	Payroll: \$1,250,000/yr.
1	1,200' sanitary and storm sewers . .	14,400	1	Business license fees	\$300/yr.
1	Other site improvements	6,000	2	Personal property taxes; sales and use taxes; motor vehicle allocations; gas taxes; other fees and charges	Not determin- able at outset
1	Relocation of two city streets	6,500	2	Warehouse, 25,000 sq. ft. (const. cost: \$100,000; ass'd val., \$25,000)	Taxes: \$250/yr. after completion
	Land	23,000	2	Warehouse employees: 4	Payroll: \$20,000/yr.
	Hard surface streets	<u>23,000</u>	3	Laboratory facilities (cost: \$160,000; ass'd val. \$40,000)	Taxes: \$400 per yr. after completion
	Total 1-year cost	<u>\$91,900</u>	3	Lab employees: 12	Payroll: \$75,000/yr.
			10	10-yr. value to city: apr. 300 empls; payroll \$13,450,000 gross; ad val. taxes: real estate, \$21,900, pers. prop., \$30,000; fees, etc., \$5,000	Total taxes etc. to city: \$60,000 apr. over 10 yrs.

area must be predominantly residential either before it is undertaken or after it is completed), and the rebuilding of commercial or industrial areas of a city may offer some financing problems unless a plan can be followed similar to the "incremental financing" program allowed by the California state constitution.

Under this proposal, all local governments share in the cost of rehabilitating blighted areas within their boundaries. The principle is that if all benefit, all should pay, and the payoff of improvement costs is made more rapidly than if only the city were involved.

As an example of how this plan might work in an industrial area, suppose that a certain part of town in the early days was subdivided into residential lots of 25 x 100 feet and that these pieces of property were sold for speculation throughout the county to any and all takers. With the passage of time the land has not developed, and the ownerships are still scattered throughout a wide area, making the assembly of usable parcels a difficult and expensive thing. Under the definition of blight as delineated by the California Community Redevelopment Law, this land is blighted by virtue of its poor platting and underdevelopment, thus qualifying for redevelopment under the law.

Tax increment financing, thus available, requires that in order to pay the net cost of redevelopment (the difference between the sale price of land assembled by a redevelopment agency and sold to private developers and the total price to the redevelopment agency for acquisition, clearance, and costs of putting in site improvements), the new ad valorem taxes resulting from redevelopment levied by all taxing authorities, be impounded and transferred to the redevelopment agency until its net cost has been paid along with principal and interest on any outstanding loans or bonds which may have been required to finance the project.

By way of example, if an area were paying \$2,000 per year in combined property taxes before redevelopment, and the same area, replatted and with new construction on it were paying combined tax bills of \$20,000 per year, the increment which would be impounded to pay off the redevelopment costs would be \$18,000 annually. This payoff would continue until the costs have all been paid but for a maximum of 20 years. Under this plan, the redevelopment agency may issue bonds against the future taxes. These bonds are federal tax exempt municipals and can pay interest up to 6 per cent per year.

From this brief and sketchy description of incremental financing it can be seen that in blighted areas having high value taxing potential, the use of redevelopment could be a very attractive investment both for private enterprise and for the city. The investment side of the picture takes on even greater attraction if the bond buyer is also the developer because the investor then can deduct from his federal income taxes the property taxes paid on his property. He will receive tax free income on his redevelopment bonds which income is being paid by his own property taxes. As a practical matter, bonds of this type (assured by future taxes) find a market only when a firm development agreement has been made by the time the project's final plan has been adopted by the city council. The community benefits as well as the investor because, while offering investors attractive returns, it also receives upgrading beneficial to all citizens.

To return to the example of the property blighted by virtue of poor platting, underdevelopment, and scattered ownerships, assume that the city plans to redevelop this area using all private funds (nonfederally assisted) and the incremental financing procedure. Say that the area consists of eight blocks with 32 lots per block, each 25 x 100 feet, and streets with a 50-foot right-of-way. The area then is just about 20 acres. Assume also that its best use as set out by the city's master plan is industrial, that four dwellings are located within this area, only one street is in, and that utilities would have no industrial re-use potential.

For illustration, each corner lot has an assessed value of \$120, and the other lots have assessed values of \$100 each. The four homes are assessed at \$1,000 each. The total assessed value of the area then is land, \$26,240; improvements, \$4,000; total, \$30,240. With a combined tax rate of \$6.00 per \$100 of assessed value, the present taxes amount to \$1,814.40 annually.

If assessments are 25 per cent of market value, the redevelopment agency must pay \$120,960 for the area (and some parcels may have to be acquired by condemnation). Adding an arbitrary 15 per cent for administrative costs brings the total cost to \$139,100, or in round numbers, \$140,000.

The installations of site improvements may be scheduled something like this:

New street (incl. rip up of old); 1,400 lin. ft., 55 ft. paved width @ 50¢/sq. ft.	\$38,500
4,000 lin. ft. curbs and gutters (incl. center dividing strip) @ \$2/sq. ft.	8,000
5 double arm street lights @ \$850	4,250
3 fire alarms @ \$600	1,800
Relocate 3 power poles @ \$800	2,400
Install sanitary sewer, 1,500 lin. ft. 18" vit clay @ \$13/lin. ft.	19,500
Install storm sewer, 1,200 lin. ft. 30" concr. @ \$11/lin. ft.	13,200
Install 6 manholes @ \$300	1,800
Install 4 junction boxes @ \$1,000	4,000
Install 3 fire hydrants @ \$500	<u>1,500</u>
Total site improvements	<u>\$94,950</u>

Because the redevelopment process can take a couple of years to carry through, it may be politically wise for the redevelopment agency to pay "in lieu" property taxes to the taxing authorities on the assessed valuation existing before redevelopment. At \$1,814.40 per year, a five-year fund (\$9,072) of \$9,100 will see the project through adequately.

Now, it is time to add up the costs to ascertain the capital required to put this project together:

Land acquisition funds	\$140,000
In lieu taxes	9,100
Site improvement funds	<u>95,000</u>
	\$245,100
2 years' bond payments (until sale of land to developer)	25,000
2 years' interest @ 6%	<u>28,200</u>
Initial funds required:	<u>\$297,300</u>

After the street is in, the redevelopment agency has net saleable land of 18 acres. If the selling price averages \$12,500 per acre, the city realizes a gross of \$225,000. These funds are used to retire that amount of the initial debt, leaving a balance of bonds outstanding of \$62,300.

At an assessed value of \$3,125 per acre, the redeveloped acreage has a total assessed valuation of \$56,250. If it takes \$6,000 per year in incremental taxes to pay off the outstanding bonds and interest, the city will need assessed valuation of at least \$130,240, or \$73,990 over and above the new value of the land. These figures assume, of course, that the combined tax rate will continue at \$6.00 per \$100 of assessed valuation.

While redevelopment may not be the answer to the old question of where does the money come from for land assembly and site improvements for economic development, it is at least an approach which may be utilized effectively where a blighted situation exists in the community.

Conclusion

This report has considered a number of steps which the city might take in exercising its role in the economic development of its area. The report has covered the meaning of economic development, the local self-analysis to determine the area's potentialities, organizing to prepare the city for development, and the tools of subsidy and redevelopment as possible methods for effectuating the physical growth of the community. An attempt has been made to look at these topics from the point of view of the chief administrator in local government.

The emphasis has been on those phases of economic development which are legitimate functions of local government and which are usually not performed by other institutions. For this reason, no attempt has been made to discuss the promotional phases of such a program because local chambers of commerce are ordinarily well equipped to do civic saleswork.

If a high level of cooperation and teamwork exists among all who are involved in the conduct of the economic development program, then the chances for its success will be greatly enhanced.

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